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STATE FOR SCA/CEN M. O'MARA
DEPARTMENT OF ENERGY FOR EKIMOFF
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SUBJECT: KAZAKHSTAN: KMG EXPERT DISCUSSES CPC EXPANSION,
CROSS-CASPIAN TRANSPORTATION

Classified By: POL/ECON CHIEF STEVE FAGIN FOR REASONS 1.4 (B) AND (D)

¶1. (C) Summary: KazMunaiGas' Executive Director for Oil Transportation Arman Darbayev believes that Russia has, for the first time, created a framework that may make CPC expansion possible. He disputes reports, however, that expansion will be directly linked to Kazakhstan's supplying oil to the Bourgas - Alezandroupolis pipeline. On trans-Caspian oil transportation plans, Darbayev expressed frustration with Azerbaijan, claiming that the Azerbaijanis continue to move slowly. End Summary

Some Optimism on CPC Expansion

¶2. (C) On May 13, KazMunaiGas Executive Director for Oil Transportation Arman Darbayev told Poloff that he believes prospects for CPC expansion have improved after recent talks between Russia and Kazakhstan. According to Darbayev, the MOU on expansion developed by Kazakhstan and Russia has now been released to other shareholders for consideration. Darbayev called some of the terms "controversial" for the shippers but believes there is "a big chance they will accept." Most importantly, he noted, the Russians have for the first time laid out all conditions for expansion. Previously, the Russians added a new obstacle each time a condition was met.

¶3. (C) Darbayev speculated that high-level Russian leaders are not pleased with the ongoing CPC deadlock, and that if the Russian CPC team can prove to their superiors they are gaining something of value, Russia will move forward. "The Russians have the will," he said. Darbayev also underlined that CPC is still the most profitable route for Kazakhstan, and said that expansion under the conditions sought is better than continued prolonged discussions.

¶4. (C) Poloff asked Darbayev about a linkage between CPC expansion and the supply of Kazakhstani oil for the Bourgas - Alexandroupolis pipeline (BAP). Darbayev was skeptical that Kazakhstan will be providing BAP oil in the near future. He told Poloff that he had recently seen a presentation on BAP and was left with the impression that progress on the project is lagging. Many commercial mistakes have been made, he said. Transneft wants guarantees, but shippers cannot make any guarantees without conditions. Kazakhstan cannot wait for BAP, according to Darbayev. The Russians, said Darbayev, "always want to get everything, plus a little bit more." BAP, he believes, is the "little bit more."

Frustration with Azerbaijan Continues

¶ 15. (C) Darbayev, as he has done on previous occasions, expressed displeasure with the efforts of Azerbaijan to move forward on plans for trans-Caspian oil transportation. Kazakhstan sent to Azerbaijan two months ago a draft Heads of Agreement (which he described as only an eight page document), and still has not received any comments. Poloff asked Darbayev why the Azerbaijanis have been slow to react. Darbayev responded that it may in part be a question of human resources, as SOCAR "is not an international oil company." When the political pressure is sufficient, however, they are capable of acting efficiently.

¶ 16. (C) Looking at Kazakhstan's transportation options from Baku onwards, Darbayev said that Kazakhstan is ready to use the Baku-Supsa pipeline and would be willing to consider the possibility of a second Baku-Supsa pipeline. The Azerbaijanis have cast doubt on Baku - Supsa, saying that it is a PSA pipeline and that if changes are made the Georgians will seek to change the conditions of the agreement. Darbayev seemed exasperated by this logic and said that such issues can be negotiated. He noted that the Azerbaijanis were the only party to vote against initial BTC expansion, and said that the Azerbaijanis may play difficult when the next stage of expansion comes to vote (and unanimity is required).

Darbayev suggested that the Azerbaijanis will pressure Kazakhstan to rail more of its oil to Azerbaijan's Kulevi terminal.

¶ 17. (C) Darbayev claimed that 80% of the capacity at Azerbaijan's oil terminals is currently free. He claimed to Poloff that no one wants to supply Azerbaijan oil when they are increasing tariffs and changing transit conditions. He

concluded by saying that "Azerbaijan needs to change its policies."

¶ 18. (C) Comment: Given past history, it is easy to be skeptical about talk of CPC expansion. This time, however, the Kazakhstanis feel that Russia is making more of a good-faith effort, and appear guardedly optimistic. Russia's true intentions may be better known when President Medvedev travels to Kazakhstan on May 22-23 for his first trip abroad as head of state. End Comment.

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